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SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415

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APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY FOR AUTHORITY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

CROSS-REBUTTAL TESTIMONY

OF

KARL J. NALEPA

ON BEHALF OF

CITIES ADVOCATING REASONABLE DEREGULATION

APRIL 23, 2021

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CROSS-REBUTTAL TESTIMONY OF KARL J. NALEPA

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION AND ADDRESS.

A. My name is Karl J. Nalepa. I am President of ReSolved Energy Consulting, LLC ("REC"), an independent utility consulting company. My business address is 11044 Research Boulevard, Suite A-420, Austin, Texas 78759.

Q. ARE YOU THE SAME KARL J. NALEPA WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR CROSS-REBUTTAL TESTIMONY?

A. The purpose of my cross-rebuttal testimony is to address certain issues raised in the Direct Testimonies of East Texas Salt Water Disposal Company and East Texas Oil and Gas Producers ("ETSWD") witness Kit Peveto, Nucor Steel ("Nucor") witness Jim Daniel, Texas Industrial Electric Consumers ("TIEC") witness Jeffry Pollock, and Public Utility Commission of Texas Staff ("Staff") witness Adrian Narvaez.

II. ETSWD WITNESS KIT PEVETO ISSUES

Q. WHAT ISSUES RAISED BY MS. PEVETO ARE YOU ADDRESSING?

A. Ms. Peveto recommends that SWEPCO's Texas Retail rate class cost allocation study should be updated to account for changes to electricity usage caused by the COVID-19 pandemic or at least revised to include all known and measurable adjustments related to COVID-19 pandemic impacts.[1]

Q. DID SWEPCO MAKE ANY ADJUSTMENTS TO ITS TEST YEAR BILLING DETERMINANTS TO REFLECT THE IMPACT OF COVID-19?

A. SWEPCO explained that, other than the removal of three specific industrial customers, it made no generic pro-forma adjustments for COVID-19 impacts to the test year load and customer data because the COVID-19 impacts were neither fully known nor measurable.[2]

Q. WHY DOES MS. PEVETO BELIEVE A COVID-19 ADJUSTMENT IS NECESSARY?

A. Ms. Peveto testified that SWEPCO noticed an overall decline in its retail sales since the COVID-19 pandemic began in March 2020 and, compared to 2019, SWEPCO's total Texas Retail kWh sales dropped 3.2 percent in 2020. Furthermore, while Residential kWh sales increased by 3.3 percent, Commercial and Industrial kWh consumption declined by 5 percent and 6.9 percent, respectively.[3]

Ms. Peveto also asserted that if no pro-forma adjustments to reflect COVID-19 pandemic impacts are made to the test year load and customer information, the costs assigned to rate classes experiencing energy usage reductions (*i.e.*, Commercial and Industrial) could be overstated while costs assigned to rate classes experiencing increased energy usage would be understated (*i.e.*, Residential).[4]

Q. DID MS. PEVETO PROPOSE A SPECIFIC COVID-19 ADJUSTMENT?

A. No. Ms. Peveto simply proposed that SWEPCO's cost allocation study should be revised to include all known and measurable adjustments related to COVID-19 pandemic impacts, not just for three large industrial customers.[5]

Q. IS THERE A KNOWN AND MEASURABLE ADJUSTMENT THAT COULD BE MADE TO SWEPCO'S COST ALLOCATION STUDY?

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[1] Direct Testimony of Kit Peveto at 5.

[2] *Id.* at 9.

[3] *Id.* at 10.

[4] *Id.* at 13.

[5] *Id.* at 14.

A. Not in my opinion. I would not dispute that there have been changes in consumption patterns among rate classes during the COVID-19 pandemic. But even if one were to propose an adjustment to consumption, there is no known and measurable adjustment to make. Using 2019 class consumption (to which Ms. Peveto compares 2020 consumption) presumes that usage will precisely return to pre-COVID-19 levels. And that it will occur by the time rates go into effect in this case.

Clearly COVID-19 restrictions have forced many workers into home offices and many businesses to temporarily or permanently close in 2020. But no one knows how many workers will return to their pre-COVID-19 work locations and certainly not when. Likewise, no one knows, other than for the three specific industrial customers that have demonstrated permanent closures due to COVID-19, when and which businesses that closed will reopen and resume pre-COVID-19 operations. The only known and measurable change that can be made is the one that SWEPCO has already made - to remove the impact of the three specific industrial customers.

Q. WHAT IS YOUR RECOMMENDATION?

A. I conclude that Ms. Peveto's proposed adjustment to account for changes to electricity usage caused by the COVID-19 pandemic is not reasonably known and measurable and recommend Ms. Peveto's proposed adjustment be rejected.

III. NUCOR WITNESS JIM DANIEL ISSUES

Q. WHAT ISSUES RAISED BY MR. DANIEL ARE YOU ADDRESSING?

A. Mr. Daniel recommends that the Commission reject SWEPCO's proposed revenue distribution and gradualism should only be applied for three small rate classes.[6] Mr. Daniel also recommends that for purposes of determining the distribution of the proposed or approved revenue increase, the current base rate revenues should include the Transmission Cost Recovery Factor ("TCRF") and Distribution Cost Recovery Factor ("DCRF") revenues.[7]

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[6] Cotton Gin Service, Oilfield Secondary Service, and Public Street and Highway Lighting Service. *See* Direct Testimony of Jim Daniel at 16.

[7] Direct Testimony of Jim Daniel at 5.

Q. HOW WOULD MR. DANIEL'S PROPOSAL BE IMPLEMENTED?

A. Mr. Daniel proposes that the base rate revenue increases for these three rate classes be limited to 1.5 times the average SWEPCO percent increase of 24.96%,[8] which amounts to 37.44%. He then proposes that the revenue shortfall resulting from this gradualism adjustment be proportionately assigned to those rate classes that receive below average base rate revenue percentage increases.[9]

Q. DO YOU AGREE WITH MR. DANIEL'S PROPOSAL?

A. I agree that the current base rate revenues should include TCRF and DCRF revenues for purposes of determining the distribution of the approved revenue increase, and I agree that a gradualism adjustment is an important revenue distribution tool that should be applied when necessary to protect customers from significant rate increases. However, I do not agree with Mr. Daniel's proposal to spread the revenue shortfall to those rate classes that receive below average base rate revenue percent increases.

Q. PLEASE EXPLAIN WHY NOT.

A. It is not necessary to do so. The result of Mr. Daniel's proposal is that 85% of the revenue shortfall[10] is assigned to the residential class, which is already at its allocated cost of service. Instead, it would be reasonable to assign the revenue shortfall attributable to the Cotton Gin and Oilfield Secondary Service within the commercial customer group and the revenue shortfall attributable to the Public Street and Highway Lighting Service within the municipal service and street lighting group. There is no need to spread the revenues beyond these groups.

Q. WHAT IS YOUR RECOMMENDATION?

A. I conclude that Mr. Daniel's proposal to spread the revenue shortfall to those rate classes that receive below average base rate revenue percent increases is not reasonable and

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[8] 24.96% reflects the overall revenue increase net of TCRF and DCRF revenues. *See* Direct Testimony of Jim Daniel at 14.

[9] Direct Testimony of Jim Daniel at 16.

[10] $359,599 / $412,839 = 85.2%. *See* Direct Testimony of Jim Daniel, Exhibit JWD-6.

recommend instead the revenue shortfall be assigned within the respective customer groups of the three rate classes for which he applies a gradualism adjustment.

IV. TIEC WITNESS JEFFRY POLLOCK ISSUES

Q. WHAT ISSUES RAISED BY MR. POLLOCK ARE YOU ADDRESSING?

A. Mr. Pollock asserts SWEPCO is proposing significant changes in how it is applying the A&E/4CP method. Specifically, Mr. Pollock criticizes SWEPCO for using a 4CP (rather than a 1CP) load factor to weigh the average demand component, and for transmission plant and related expenses, the 4CPs were based on loads coincident with SPP Zone 1 monthly system peaks rather than SWEPCO's actual 4CPs.[11]

Q. HOW DID MR. POLLOCK RESPOND TO SWEPCO'S PROPOSAL?

A. Mr. Pollock references the Order in SWEPCO's prior rate case to support his proposed changes to the A&E/4CP allocator[12] and consequently developed a revised cost of service study incorporating his changes to the allocator.[13]

Q. DID SWEPCO EXPLAIN IN ITS DIRECT TESTIMONY WHY IT PROPOSED A DIFFERENT METHODOLOGY AS CLAIMED BY MR. POLLOCK?

A. Not that I could identify.

Q. WHAT IS THE IMPACT OF MR. POLLOCK'S REVISED COST OF SERVICE STUDY?

A. The changes incorporated by Mr. Pollock result in shifting $7.877 million between customer classes compared to SWEPCO's revenue distribution.[14] Importantly, his revenue distribution *increases* the amount allocated to the residential customer class by $4.785 million. This is a 11.6% increase over the revenues under SWEPCO's proposed

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[11] Direct Testimony of Jeffry Pollock at 5.

[12] *Id.* at 34.

[13] *Id.* at 40.

[14] Comparing Pollock Exhibit JP-4 with the Direct Testimony of Jennifer L. Jackson, Exhibit JLJ-1.

distribution.[15] In contrast, Mr. Pollock's proposed revenue distribution *reduces* the amount allocated to the large lighting & power class by $6.697 million.

Q. WHAT IS YOUR RECOMMENDATION?

A. Until SWEPCO has an opportunity to explain why it developed the methodology disputed by Mr. Pollock, I oppose any changes to the methodology as it results in significant cost shifting under Mr. Pollock's alternative. I recommend that Mr. Pollock's proposal be rejected at this time.

V. STAFF WITNESS ADRIAN NARVAEZ ISSUES

Q. WHAT ISSUES RAISED BY MR. NARVAEZ ARE YOU ADDRESSING?

A. Mr. Narvaez recommends that the Commission reject SWEPCO's revenue distribution proposal and approve a four-year phased-in revenue distribution approach to achieve gradual movement towards cost-based rates for each class in SWEPCO's class cost of service study.[16]

Q. HOW IS MR. NARVAEZ'S PROPOSAL SUPPOSED TO BE IMPLEMENTED?

A. Mr. Narvaez proposes that:

1. The initial rates start with the approved class cost of service study ("CCOSS"), except that the revenue increase for any individual class, net of changes in TCRF and DCRF revenues, would be capped at 43%.[17] The residual revenues from classes subject to the 43% cap would be reallocated proportionally among the classes within the rate bundle that are not subject to the 43% cap. At Staff's proposed CCOSS level, the Cotton Gin, Oilfield Secondary Service, and the Public Street and Highway Lighting classes experience a cost-based increase greater than 43%.[18]

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[15] $4,785 million / $41,074 million = 11.6%.

[16] Direct Testimony of Adrian Narvaez at 6.

[17] *Id.* at 19.

[18] *Id.* at 23-24.

2. The second-year rates would be set to cap revenue increases for any individual class, net of changes in TCRF and DCRF revenues, at an additional 43% from present test-year base-rate related revenues. At Staff's proposed CCOSS, cost-based net revenue increases for all classes are now below the 86% cap,[19] except Public Street and Highway Lighting class, which would still be above the 86% cap. Thus, the Public Street and Highway Lighting class would be capped at an 86% net increase and the remaining residual revenue amount would be allocated proportionally among the other classes within the Municipal rate bundle.[20]

3. The third-year rates would be set to cap revenue increases for any individual class, net of changes in TCRF and DCRF revenues, at an additional 43% from present test-year base-rate related revenues. At Staff's proposed CCOSS, the Public Street and Highway Lighting class, which would still be above the 129% cap.[21] Thus, the Public Street and Highway Lighting class would be capped at a 129% net increase and the remaining residual revenue amount would be allocated proportionally among the other classes within the Municipal rate bundle.[22]

4. The fourth-year rates would be set to cap revenue increases for any individual class, net of changes in TCRF and DCRF revenues, at an additional 43% from present test-year base-rate related revenues. At Staff's proposed CCOSS, the Public Street and Highway Lighting's cost-based net revenue increase is 170.45%, which is below the 172% cap.[23] This means that all rates would finally be set at cost after four years.

Q. ARE THERE ANY PROBLEMS WITH MR. NARVAEZ'S PROPOSAL?

A. Yes. His proposal is based on the idealistic simplification that present test-year base-rate revenues remain constant over the four-year term of the phase-in plan. Mr. Narvaez's plan

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[19] 43% cap in phase I plus 43% in phase II = 86% cumulative cap.

[20] Direct Testimony of Adrian Narvaez at 24.

[21] 43% cap in phase I plus 43% in phase II plus 43% in phase III = 129% cumulative cap.

[22] Direct Testimony of Adrian Narvaez at 25.

[23] 43% cap in phase I plus 43% in phase II plus 43% in phase III plus 43% in phase IV = 172% cumulative cap.

ignores the reality that rate classes grow at different rates, so basing the phase-in plan on an unrealistic assumption, that the relative class revenues remain the same, can lead to results where classes move further from cost, not closer. Table 1, below, summarizes the change in present revenues (including TCRF and DCRF revenues) by major customer classes since SWEPCO's last rate case in Docket No. 46449. As can be seen, the growth in class revenues ranges from 0.6% to 35.2% over the nearly four years between test years[24] and there is no reason to expect similar changes would not occur over the next four years.

Table 1[25]

Customer Class	Pct. Change
Residential	13.9%
General Service	21.8%
Lighting & Power	11.4%
Cotton Gin	12.1%
Large Lighting & Power	3.2%
Metal Melting	32.5%
Oilfield	35.2%
Municipal & Municipal Lighting	20.3%
Outdoor Lighting	0.6%

Furthermore, costs will change as well, again rendering the fixed base-rate revenues stale before the four-year rate phase-in is complete. Rates are fixed based on a test year "snapshot" of revenues and expenses. A better alternative to four consecutive years of annual rate changes is to establish an acceptable rate moderation plan in this case and modify it as necessary in SWEPCO's next base rate case.

Q. IS THERE ANY PRECEDENT FOR MR. NARVAEZ'S PROPOSAL?

A. While rates should ultimately be set at cost, rate shock can be a real concern and the Commission has approved rate moderation plans in cases where large rate increases would

[24] The Docket No. 46449 test year end is June 30, 2016; The current test year end is March 31, 2020.

[25] Comparing Docket No. 46449, Exhibit SGJ-2 with the Direct Testimony of Jennifer L. Jackson, Exhibit JLJ-1.

otherwise be imposed on customers. But the Commission has never approved a rate moderation plan for an electric utility that comprised a four-year phase-in of rates.[26]

Q. WHAT IS YOUR RECOMMENDATION?

A. While a rate moderation plan may be appropriate for some classes in this case, I conclude that Mr. Narvaez's proposed four-year rate phase-in plan is unworkable and unprecedented, and therefore I recommend it be rejected.

Q. DO YOU HAVE ANY OTHER COMMENTS?

A. Yes. The revenue allocations addressed in my cross-rebuttal testimony do not reflect the significant cost of service reductions proposed by the intervenors to this proceeding. Adopting these reductions will most certainly require a revised cost of service study to be performed and may eliminate the need for any gradualism adjustment. This will have to be determined once the cost of service is finalized.

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, at this time.

[26] Direct Testimony of Adrian Narvaez at 25.

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	46449				51415					
	Test Year End June 30, 2016				Test Year End March 31, 2020					
CUSTOMER CLASS	Present Base Rate Revenue	TCRF / DCRF RIDER REVENUE	Present Base Revenue with TCRF/DCRF		PRESENT BASE RATE REVENUE	TCRF / DCRF RIDER REVENUE	Present Base Revenue with TCRF/DCRF		Pct Change Class	Pct Change Group
RESIDENTIAL	119,983,708	14,516,621	134,500,329		147,077,995	6,149,974	153,227,969		13.9%	13.9%
GENERAL SERVICE W/DEM	12,416,924	1,553,157	13,970,081		16,998,369	640,098	17,638,468		26 3%	
GENERAL SERVICE WO/DEM	4,781,744	548,146	5,329,890		5,669,225	206,592	5,875,817		10 2%	
										21.8%
LIGHTING & POWER	84,370,396	12,100,900	96,471,295		100,037,248	4,206,300	104,243,548		8.1%	
LIGHTING & POWER	16,709,824	2,715,718	19,425,542		23,827,679	1,068,781	24,896,460		28.2%	
										11.4%
COTTON GIN	220,694	32,351	253,046		265,617	18,170	283,787		12.1%	12 1%
TOTAL COMMERCIAL	118,499,582	16,950,272	135,449,854		146,798,138	6,139,941	152,938,080		12 9%	
LARGE LIGHTING & POWER	4,752,297	801,621	5,553,918		5,298,104	240,342	5,538,446		-0 3%	
LARGE LIGHTING & POWER	19,210,576	3,354,359	22,564,935		22,387,847	1,082,875	23,470,723		4 0%	
										3.2%
METAL MELTING - SEC	-	-	-		143,749	7,277	151,026			
METAL MELTING - PRI	1,374,544	67,868	1,442,412		1,402,858	93,452	1,496,310		3 7%	
METAL MELTING - TRANS	951,080	111,054	1,062,134		1,498,929	173,479	1,672,408		57 5%	
										32.5%
OILFIELD PRIMARY	8,546,040	128,349	8,674,389		10,636,387	498,564	11,134,950		28 4%	
OILFIELD SECONDARY	-	-	-		588,848	2,543	591,392			35 2%
TOTAL INDUSTRIAL	34,834,537	4,463,252	39,297,789		41,956,723	2,098,532	44,055,255		12 1%	
TOTAL COMMERCIAL & INDUSTRIAL	153,334,119	21,413,525	174,747,643		188,754,861	8,238,473	196,993,335		12 7%	12 7%
MUNICIPAL PUMPING	1,728,750	229,655	1,958,405		2,279,333	111,135	2,390,468		22.1%	
MUNICIPAL SERVICE	1,205,280	98,016	1,303,296		1,650,219	51,385	1,701,604		30 6%	
TOTAL MUNICIPAL PUMPING & SERVICE	2,934,030	327,671	3,261,701		3,929,551	162,520	4,092,072		25 5%	25.5%
MUNICIPAL LIGHTING	1,874,847	204,997	2,079,845		2,267,085	84,359	2,351,444		13.1%	
PUBLIC STREET & HWY	27,340	13,464	40,804		30,170	3,277	33,447		-18 0%	
TOTAL MUNICIPAL LIGHTING	1,902,188	218,461	2,120,649		2,297,255	87,636	2,384,890		12.5%	12 5%
TOTAL MUNICIPAL & MUNICIPAL LIGHTING	4,836,218	546,132	5,382,350		6,226,806	250,156	6,476,962		20.3%	20.3%
PRIVATE, OUTDOOR, AREA	4,005,578	378,509	4,384,086		4,150,616	156,828	4,307,444		-1.7%	
CUST-OWNED LIGHTING	178,383	40,099	218,482		293,022	31,071	324,093		48 3%	
TOTAL LIGHTING	4,183,960	418,608	4,602,568		4,443,639	187,898	4,631,537		0.6%	0.6%
TOTAL FIRM RETAIL	282,338,005	36,894,885	319,232,890		346,503,301	14,826,502	361,329,802		13.2%	
Check	282,338,005	36,894,885	319,232,890	-	346,503,301	14,826,502	361,329,802			
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